SOUTHEAST VOLUSIA ADVERTISING AUTHORITY
A SPECIAL REVENUE FUND OF THE COUNTY OF VOLUSIA, FLORIDA

FINANCIAL STATEMENTS

SEPTEMBER 30, 2011

SOUTHEAST VOLUSIA ADVERTISING AUTHORITY
A SPECIAL REVENUE FUND OF THE COUNTY OF VOLUSIA, FLORIDA
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JAMES MOORE & CO., P.L.
CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of Southeast Volusia Advertising Authority,
A special revenue fund of the County of Volusia, Florida:

We have audited the accompanying financial statements of the Southeast Volusia Advertising Authority (the Authority), a special revenue fund of the County of Volusia, Florida as of and for the year ended September 30, 2011, as listed in the table contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the Southeast Volusia Advertising Authority special revenue fund and do not purport to, and do not, present fairly the financial position of the County of Volusia, Florida, as of September 30, 2011, and the changes in its financial position, or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Southeast Volusia Advertising Authority, a special revenue fund of the County of Volusia, Florida, as of September 30, 2011, and the changes in its financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 29, 2012, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the budgetary comparison information on pages 10 and 11 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

James Moore & Co., P.L.

Daytona Beach, Florida
February 29, 2012

SOUTHEAST VOLUSIA ADVERTISING AUTHORITY
A SPECIAL REVENUE FUND OF THE COUNTY OF VOLUSIA, FLORIDA
BALANCE SHEET
SEPTEMBER 30, 2011

ASSETS

Cash and cash equivalents	$	623,629
Taxes receivable		105,586
Prepaid items		53,917
Total Assets	$	783,132

LIABILITIES AND FUND BALANCE

Liabilities		
Accounts payable and accrued expenses	$	70,957
Fund Balance		
Nonspendable:		
Prepaid items		53,917
Restricted for tourism and advertising		658,258
Total fund balance		712,175
Total Liabilities and Fund Balance	$	783,132

The accompanying notes to financial statements
are an integral part of this statement.

SOUTHEAST VOLUSIA ADVERTISING AUTHORITY
A SPECIAL REVENUE FUND OF THE COUNTY OF VOLUSIA, FLORIDA
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
FOR THE YEAR ENDED SEPTEMBER 30, 2011

Revenues	
Convention development taxes, net	$ 1,155,503
Interest	4,614
Total revenues	1,160,117
Expenditures	
Economic environment:	
Personal services	334,009
Operating	960,298
Capital outlay	63,659
Total expenditures	1,357,966
Deficiency of revenues over expenditures	(197,849)
Fund balance, beginning of year	910,024
Fund balance, end of year	$ 712,175

The accompanying notes to financial statements
are an integral part of this statement.

(1) Summary of Significant Accounting Policies:

The following is a summary of the more significant accounting policies and practices of Southeast Volusia Advertising Authority (the Authority), a special revenue fund of the County of Volusia, Florida, which affect significant elements in the accompanying financial statements:

(a) **Organization and purpose—**In 1987 the County of Volusia, Florida (the County) adopted Ordinance 87-23, as amended, pursuant to Chapter 212.0305, Florida Statutes, which created the Authority, a special revenue fund of the County, to administer and disburse the proceeds of the Convention Development Tax imposed within the boundaries of the Southeast Volusia Tax District as defined by Chapter 262.94, Laws of Florida. The proceeds are used solely within the district to promote and advertise tourism, and to fund convention bureaus, tourist bureaus, tourist information centers, and news bureaus. The County appoints all members of the Authority's board of directors for one to three year terms.

(b) **Reporting entity**—The Governmental Accounting Standards Board (GASB) in its Statement No. 14, "*The Financial Reporting Entity,*" as amended by GASB 39, "*Determining Whether Certain Organizations Are Component Units an amendment of GASB Statement 14*", establishes standards for defining the financial reporting entity. In developing these standards, the GASB assumed that all governmental organizations are responsible to elected officials at the federal, state, or local level. Financial reporting by a state or local government should report the elected officials' accountability for those organizations.

There are no potential component units of the Authority.

The Authority's financial statements have been prepared in accordance with the accounting principles generally accepted in the United States of America. The financial statements of the Authority are intended to present the fund balance and the changes in fund balance of only that portion of the County of Volusia, Florida that is attributable to the transactions of the Authority. They do not purport to, and do not, present fairly the financial position of the County of Volusia, Florida as of September 30, 2011 and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

(c) **Fund financial statements**—Fund financial statements are presented for the Southeast Volusia Advertising Authority, a special revenue fund of the County of Volusia, Florida. The Authority does not engage in any business-type activities. The operations of the Authority are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues, and expenditures. Government resources are allocated to and accounted for in individual funds, based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

(1) **Summary of Significant Accounting Policies:** (Continued)

(d) **Measurement focus, basis of accounting and financial statement presentation**—Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Authority considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures are generally recorded when a liability is incurred, as under accrual accounting.

When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first, and then unrestricted resources as they are needed.

Capital outlays expended in the governmental fund operations of the Authority are capitalized in the basic financial statements of the County of Volusia, Florida rather than in the governmental fund of the Authority.

(e) **Cash and cash equivalents—**The Authority considers all short-term investments with an initial maturity of less than three months when purchased by the Authority to be cash equivalents.

(f) **Prepaid items—**Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the fund financial statements.

(g) **Capital assets**—Capital assets, which include leasehold improvements and equipment are defined by the Authority as assets with initial, individual costs that equal or exceed $1,000 and an estimated useful life of over one year. Capital assets are recorded as expenditures at the time goods are received and a liability is incurred. Purchased capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. Internally-generated intangible assets, including a web-site and mobile application, are recorded at historical cost. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. No depreciation has been provided on capital assets in these financial statements. However, depreciation expense on these capital assets will be recorded in the basic financial statements of the County of Volusia, Florida.

(h) **Convention development taxes, net**—Convention development tax revenues are reported net of a 2% administrative fee paid to the County of Volusia to administer and collect the tax. The fee for the year ended September 30, 2011 was $23,582.

(i) **Fund balance**— For the year ended September 30, 2011, the Authority implemented GASB Statement No. 54, which redefined how fund balance of the governmental funds are presented in the financial statements. Fund balances are classified as follows:

Nonspendable—Amounts that cannot be spent either because they are not in a spendable form or because they are legally or contractually required to be maintained intact.

(1) **Summary of Significant Accounting Policies:** (Continued)

Restricted—Amounts that can be spent only for specific purposes because of the Bylaws, district or local charter, state or federal laws, or externally imposed conditions by grantors or creditors.

Committed—Amounts that can be used only for specific purposes determined by a formal action by ordinance or resolution. This includes the budget reserve account.

Assigned—Amounts that are designated by the Board of Directors for a specific purpose but are not spendable until a budget ordinance is passed by the Board of Directors.

Unassigned—All amounts not included in other spendable classifications.

(j) **Budgets**—The Executive Director shall present a recommended budget to the Board of Directors on or before September 1st of each year. The Authority shall adopt and transmit to the County of Volusia, Florida a recommended budget on or before September 1st of each year for approval by the County Council. The budget is adopted on a basis consistent with accounting principles generally accepted in the United States of America. The fund is the legal level of control. All appropriations lapse at the close of the fiscal year to the extent that they have not been carried forward.

(k) **Investments**—Investments authorized by Section 215.47, Florida Statutes, include bonds, notes, commercial paper, and various other types of investments. The Authority has not adopted a written investment policy and limits its investments to those prescribed by Section 218.415(7), Florida Statutes. The Authority's investments at September 30, 2011, consisted of a money market account with a local financial institution. The investment is classified as a cash equivalent on the balance sheet at September 30, 2011 due to its initial maturity of less than three months.

(2) **Capital Assets:**

Capital asset activity for the year ended September 30, 2011, which is reported in the basic financial statements of the County of Volusia, Florida rather than the governmental activities of the Authority is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets, being depreciated:				
Leasehold improvements	$ 10,781	$ 13,408	$ -	$ 24,189
Equipment	14,516	6,820	(7,861)	13,475
Intangibles	-	29,403	-	29,403
Less: Accumulated depreciation	(16,076)	(6,466)	7,861	(14,681)
Governmental activities capital assets, net	$ 9,221	$ 43,165	$ -	$ 52,386

(3) Deposits:

At September 30, 2011, the carrying amount of the Authority's deposits was $623,629 and the bank balance was $733,383. The deposits were with one bank, which is part of a branch banking system covering the State of Florida. The entire amount of the bank balance of deposits is covered by federal depository insurance or collateral with the State of Florida Security for Public Deposits Act.

The Florida Security for Public Deposits Act establishes guidelines for qualifications and participation by banks and savings associations, procedures for the administration of the collateral requirements, and characteristics of eligible collateral. Under the Act, the Authority's deposits in qualified public depositories are totally insured. The qualified public depository must pledge at least 50 percent of the average daily balance for each month of all public deposits in excess of any applicable deposit insurance. Additional collateral, up to a maximum of 125 percent, may be required, if deemed necessary under the conditions set forth in the Act. Obligations pledged to secure deposits must be delivered to the State Treasurer, or with the approval of the State Treasurer, to a bank, savings association, or trust company provided a power of attorney is delivered to the Treasurer.

(4) Operating Leases:

The Authority leases office space, ad space, and equipment under operating leases. These leases expire on dates ranging from September 2011 to May 2012. The Authority's lease expense under operating leases for the year ended September 30, 2011 was approximately $93,000 and was recorded under rent and advertising and promotions expenditures.

The following is a schedule of future minimum rental payments required under the above operating leases as of September 30, 2011:

Year Ending September 30,	Amount
2012	$ 78,400
Total minimum rental payments	$ 78,400

(5) Related Party Transactions:

During the year ended September 30, 2011, various transactions were entered into with related parties.

A total of $35,650 was paid to support two organizations in which the new executive director's personal business is a member. The new executive director's daughter was hired as a part-time employee and was paid $5,565 in wages and bonuses during the year ended September 30, 2011. Additionally, the new executive director's brother was paid $795 for consulting and training services.

A company owned by the new treasurer was paid $484 for catering of a luncheon put on the by Authority and reimbursement for items sold on a consignment basis.

SUPPLEMENTARY INFORMATION

SOUTHEAST VOLUSIA ADVERTISING AUTHORITY
A SPECIAL REVENUE FUND OF THE COUNTY OF VOLUSIA, FLORIDA
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED SEPTEMBER 30, 2011

	Budget			Variance with Final Budget Positive
	Original	**Final**	**Actual**	**(Negative)**
Revenues				
Convention development taxes, net	$ 1,164,080	$ 1,164,080	$ 1,155,503	$ (8,577)
Interest	-	-	4,614	4,614
Total revenues	1,164,080	1,164,080	1,160,117	(3,963)
Expenditures				
Economic environment:				
Personal services	273,338	316,265	334,009	(17,744)
Operating:				
Advertising and promotions	789,591	888,322	800,702	87,620
Contingency	250,000	122,059	-	122,059
Fulfillment	32,000	23,283	18,792	4,491
Insurance	3,300	3,300	938	2,362
Office	39,611	39,611	47,578	(7,967)
Other professional fees	19,300	19,300	21,544	(2,244)
Rent	33,110	33,110	34,685	(1,575)
Travel	51,750	46,750	29,850	16,900
Utilities	7,080	7,080	6,209	871
Total operating	1,225,742	1,182,815	960,298	222,517
Capital outlay	-	-	63,659	(63,659)
Total expenditures	1,499,080	1,499,080	1,357,966	141,114
Excess (deficiency) of revenues over expenditures	(335,000)	(335,000)	(197,849)	137,151
Fund balance, beginning of year	910,024	910,024	910,024	-
Fund balance, end of year	$ 575,024	$ 575,024	$ 712,175	$ 137,151

The accompanying notes to schedule of revenues,
expenditures and changes in fund balance - budget and actual
are an integral part of this schedule.

SOUTHEAST VOLUSIA ADVERTISING AUTHORITY
A SPECIAL REVENUE FUND OF THE COUNTY OF VOLUSIA, FLORIDA
NOTES TO SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED SEPTEMBER 30, 2011

(1) **Summary of Significant Accounting Policies:**

Budgets—The Executive Director shall present a recommended budget to the Board of Directors on or before September 1st of each year. The Authority shall adopt and transmit to the County of Volusia, Florida a recommended budget on or before September 1st of each year for approval by the County Council. The budget is adopted on a basis consistent with accounting principles generally accepted in the United States of America. The fund is the legal level of control. All appropriations lapse at the close of the fiscal year to the extent that they have not been carried forward.

JAMES MOORE & CO., P.L.
CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors of Southeast Volusia Advertising Authority,
A special revenue fund of the County of Volusia, Florida:

We have audited the financial statements of the Southeast Volusia Advertising Authority (the Authority), a special revenue fund of the County of Volusia, Florida, as of and for the year ended September 30, 2011, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated February 29, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies, or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described below, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described below, individually or when combined in their totality, to be material weaknesses.

2011-01 New Executive Director's Compensation

For the year ended September 30, 3011, the new executive director was paid $75,233, beginning with the payroll paid July 12, 2011, a period of approximately 2 ½ months. Subsequent to year-end and through December 23, 2011, additional payments totaling $26,371 were paid to her, for a grand total of $101,604. As a result of our one-on-one interviews of Authority Board members, it was evident the majority of the Board members (at least 5 of them) did not intend for the new executive director to be paid that much in total, nor were they aware of the totality of what she was paid. Numerous issues are noted with regard to payment of this compensation, as follows:

Remuneration Paid for Hours Worked While an Authority Board Member

The minutes of the June 24, 2011 Authority Board meeting (the audio of this meeting is unaccounted for) indicate that the Chairman resigned from the Board, and the Board appointed her as interim director for a period of six months (No evidence of this being properly voted on is present – see Comment #2011-16 regarding meetings not following Robert Rules of Order). The minutes go on to state, "…she needed to be paid retroactively at $50 per hour as a subcontractor from May 12, 2011 through July 11, 2011. Because she was the Chairman of the Board of Directors she could not be a salaried employee. Payment would be as an independent contractor." (There is no evidence this was properly motioned, seconded, and voted on by the Board, as the minutes only indicate this was discussed.) The new executive director was paid $40,725 for hours she purportedly worked for the period from May 12, 2011 through July 11, 2011.

Florida Statute Sections 112.313(10)(a), 112.313(3), and 215.425(1) prohibit an Authority Board member from being compensated, concurrently or retroactively, for any services rendered to the Authority while an Authority Board member. So, any amounts paid her for hours worked prior to her resignation from the Board on June 24, 2011 (roughly $37,075), is against state statute.

In addition, the following inconsistencies were noted:

1. On June 30, 2011, the new executive director provided the bookkeeping service with details of her hours from May 12-June 29, 2011, which totaled 446 hours. This included 28 hours for the period May 12-May 19, 2011.
2. On January 7, 2012, the new executive director provided Volusia County details of her hours from May 12-June 30, 2011, which totaled 630 hours, or 184 hours more than submitted by her in #1 above. This included 69 hours for the period May 12-May 19, 2011, or 41 hours more than submitted in #1 above.
3. The detail of hours submitted in #2 above show as many as 101 hours worked in a single week, and an average of 86 hours per week.
4. The former executive director's last day was May 19, 2011. However, the new executive director billed the authority for 69 hours for the period May 12-May 19, 2011, while the former executive director was still there.
5. The majority of payments (and all retroactive payments) to the new executive director were initialed by the Treasurer indicating approval.

Other Errors in New Executive Director's Compensation

The new executive director's first regular paycheck was issued on July 12, 2011 in the amount of $3,542 (not including remuneration at $50 per hour) for the period June 16, 2011 through July 1, 2011. Since she had been paid through June 30, 2011 at $50 per hour, she should have been paid for only one day (July 1st), during this period. So, this regular pay should have been $327 – an overpayment of $3,215. The Treasurer initialed this payment indicating approval.

New Executive Director's Employment Contract

While performing year-end audit procedures, we were provided with a copy of the new executive director's employment contract, dated August 17, 2011, signed by the executive director, the Chairman and the Treasurer, and notarized by the assistant executive director. The August 17, 2011 Board minutes indicate the Board approved the new executive director's salary, but there was no mention of a contract or benefits. In our one-on-one meetings with Board members, five of them indicated they were not furnished with a copy of an employment contract at the August 17, 2011 meeting. In the opinion of legal counsel (with which we concur), this contract is not valid or enforceable, as it was not voted on in accordance with the Government-in-the-Sunshine Law.

The new executive director's employment agreement, ***although not valid*** in the opinion of legal counsel, was significantly different from the former executive director's employment agreement. Significant differences were as follows:

1. The agreement allowed the new executive director to receive 5 weeks of vacation, and it did not indicate if unused time carried over to the next fiscal year. The former executive director's agreement had a graduated vacation accrual policy, with only 2 weeks of vacation after the first, second, and third year of employment, and stated vacation time did not roll over to the following year unless specifically granted by the Authority, and never to exceed one week of vacation.

2. The agreement allowed the new executive director 12 sick/personal days annually, and allowed them to accrue up to 30 days. The agreement did not address if these hours had value upon resignation or termination. The former executive director's agreement allowed only 5 sick/personal days annually, allowed them to accrue up to 30 days, and clarified accrued hours had no value, monetary or otherwise, upon resignation or termination.

3. The agreement allowed for the Authority to contribute 3% of wages for the new executive director, not to exceed IRS limitations, to an Individual Retirement Account (IRA). The former executive director's agreement had no retirement contributions.

4. The agreement included a severance package that paid the new executive director six (6) month's severance pay if terminated for any reason other than by resignation, and three (3) month's severance if she resigned and gave 90 days notice. The former executive director's agreement paid severance only in the event the Authority ceased to exist or merged with another organization, and allowed for one month's salary for each year worked not to exceed six (6) months. *(Please note that Chapter 215.45, Florida Statues limits severance pay and prohibits severance pay when an employee has been fired for misconduct.)*

5. The agreement provided full medical and dental coverage for the new executive director not to exceed $1,150 per month, or $13,800 annually. The former executive director's agreement provided medical and dental coverage of $9,000 annually.

6. The agreement stated accident and life insurance premiums would be paid for the new executive director, although no specifics were outlined as to term or coverage. The former executive director's agreement provided no accident or life insurance premiums.

7. The former executive director's agreement stated the executive director's employment was contingent upon a satisfactory background investigation to be conducted by Volusia County at any time. The new executive director's agreement made no mention of a background investigation.

We recommend the Authority enter into contracts, employment and otherwise, only after they have been reviewed and approved by legal counsel. In addition, all contracts should be presented to the Board of Directors in their entirety, made part of the permanent record and agenda packet, and voted on by the Board when a quorum is present, in accordance with the Government-in-the-Sunshine Law.

2011-02 Real and/or Apparent Conflicts of Interest

The Authority's conflict of interest policy states the following: *"No employee, officer or Board member may have any conflicts of interest, real or apparent, due to ownership, other clients, contracts, or interest associated with projects that come before the Southeast Volusia Advertising Authority for a vote or in regard to purchasing goods for the Authority. The Board must be notified if such a conflict exists and the officer or employee must excuse themselves from voting or purchasing from those vendors."* Also, Florida Statutes 112.3143 requires certain disclosures should conflicts of interest occur. The following real or apparent conflicts of interest were noted:

- We noted instances in the Board meeting minutes where the Board Chair/new executive director shared affiliations with organizations for which the Authority was voting on event funding or advertising. However, the Board Chair/new executive director did not always disclose possible conflicts of interest related to these organizations, did not abstain from voting, and did not comply with the disclosure requirements of Florida Statues 112.3143.

- Further, we examined tear sheets (which are proof of advertisements published) for twelve (12) advertisements that appeared in the Daytona Beach News-Journal during the period August 26, 2011 through December 26, 2011, as a partial result of the Authority providing significant funding to a local merchants' association. In all twelve (12) advertisements, the new executive director's (and husband's) personal business was featured prominently. However, there was no mention or disclosure of this on the new executive director's signed related party confirmation, and no disclosure made in accordance with state statutes.

- As part of our related party testing, we noted a single check for $795 written to the new executive director's brother. When we inquired of the new executive director what this check was for and who the vendor was, she stated that it was for PowerPoint assistance and training/graphic design, and made no mention of him being her brother. There was also no mention or disclosure of this on the new executive director's signed related party confirmation, and no disclosure made in accordance with state statutes. We obtained other evidence supporting this to be her brother, and when specifically asked after the fact, she did indicate to say this was her brother and the disbursement was "verified and approved" by the Treasurer.

- As part of our payroll testing, we noted that upon resignation of the former executive director, the new executive director's teenage daughter began receiving payments on the Authority payroll through First Financial Employee Leasing. This started with the pay period from June 2, 2011-June 15, 2011. Through September 30, 2011 the daughter was paid $5,565, which included a $2,000 bonus in July, purportedly for two PowerPoint presentations. Additional payments were made subsequent to year-end totaling $1,650, which included a $500 bonus, for a grand total of $6,845 for the period June 29, 2011 through December 23, 2011. There was no documentation showing Board approval of the hiring of this related party, no mention or disclosure of this on the new executive director's signed related party confirmation, and no disclosure in accordance with state statutes. Payments to the daughter were initialed and approved by the Treasurer.

- In scanning for related parties, we noted a vendor was potentially affiliated with a company owned by the new executive director and her husband where the vendor was the Director of Design Services (per Manta.com, a website dedicated to small business). We noted a $4,000 disbursement to the vendor on September 14, 2011 for graphic design. (Subsequent to year-end, this vendor was paid an additional $6,981.) Per the new executive director, he was one of three contract graphic designers used by the Authority following the resignation of the previous employee who handled these duties. There was also no mention or disclosure of this on the executive director's signed related party confirmation, or disclosure in accordance with state statutes. Finally, as payments to this vendor were in excess of $3,000, these services should have been competitively bid.

- We noted a $125 disbursement to a cooking class company owned by the Board Treasurer. The invoice indicated this check was for 5 books written by the Treasurer. This payment was for books held and sold by the Authority on behalf of the Treasurer, as previously the Visitor's Center would sell local merchants' items on a consignment basis. Since this transaction should have involved the Authority collecting the money from the book sales and then disbursing it to the third parties, we asked to see the record for the $125 cash receipt. No records could be produced to show these books were sold on consignment, the receipt properly deposited, and thus support the cash disbursement back to the Treasurer. Without proper documentation, this is not a legitimate expense. There was no mention or disclosure of this payment on the Treasurer's related party confirmation.

2011-03 Gift Cards

In the performance of our audit procedures, we noted numerous gift card purchases charged to the Authority's credit card. These gift cards were to be given to employees, spouses of employees, volunteers, third party vendors, and other uses unknown.

Gift cards given to an employee are not de minimis benefits and are taxable as wages; gift cards given to volunteers are sometimes taxable as wages. For these reasons, and because no formal mechanism exists to track gift cards, we recommend the Authority refrain from purchasing gift cards.

2011-04 Erroneous Payment of Sales Tax

The Authority is exempt from paying sales tax as a government entity. However, we noted numerous instances in our analysis of purchases, particularly occurring in the majority of credit card charges, where sales tax was erroneously paid.

We recommend the Authority provide sales tax exemption certificates to all of their vendors, and ensure sales tax is not erroneously paid on purchases.

2011-05 Budget Amendments

Line items in the original budget of the Authority were reallocated during the year. The total budgeted expenditures were not increased. However, these reallocations should have been approved by the Board. We could only find two instances in the minutes where the budget was reallocated. The missing reallocation line item was a $77,941 reduction in reserves and corresponding increase in advertising and promotion.

2011-06 Errors in Assistant Executive Director's Compensation

Beginning November 1, 2011, the Authority changed from semi-monthly (twice per month) payrolls to bi-weekly (every two weeks) payrolls. As a result, salaried employees were to be paid their annual salaries over 26 payroll periods versus 24 payroll periods. Correspondingly, gross pay per pay period should have been reduced under the new methodology.

We noted that although the first bi-weekly payroll for the assistant executive director was appropriately reduced, subsequent payrolls erroneously reverted to the previous higher amount, which resulted in an overpayment of approximately $340 through December 23, 2011.

We recommend the Authority be reimbursed for this overpayment, via a lump-sum payment or periodic withholdings from the employee.

2011-07 Cutoff of Expenses and Backdating of Checks

A substantial number – both in quantity and amount – of adjustments were required to obtain proper cutoff of expenditures at year-end. Additionally, a number of checks written subsequent to year-end were back-dated to September 30, 2011, resulting in further cutoff complications. Had these errors gone uncorrected, cash would have been understated by approximately $108,000, accounts payable understated by approximately $58,000, and expenditures overstated by approximately $56,000. To ensure accurate financial reporting and recording of all transactions in the proper period, we recommend management review all expenditures near year-end to ensure such expenditures are properly recorded.

2011-08 Proper Classification of Capitalizable Expenditures

Expenditures totaling over $30,000 related to the renovation of the Authority's leased office space were improperly charged to a promotional advertising expense account. While many of these expenditures were for items below the Authority's capitalization threshold, the recording of such expenditures to the incorrect account misstates the Authority's financial statements, including the statement of budgeted-to-actual expenditures. To ensure all capital expenditures are properly reported and capital assets properly tracked, we recommend management review the coding and classification for all expenditures, and record all capital expenditures in a separate capital outlay account. In addition, we recommend capital expenditures be a separate line item on the budget. (See comment 2011-11 for additional issues related to renovation project.)

2011-09 Check Processing and Sequence

During our audit, we noted a check that was not accounted for in the Authority's accounting software and for which personnel could not substantiate documentation the check was voided. We recommend the Authority issue a stop payment on check #4173 and follow documented check processing procedures to prevent misappropriation of Authority assets.

2011-10 Capital Asset Management and Disposal

In the performance of our audit procedures, we noted an Apple computer and an Apple notebook, with cost bases of $1,563 and $1,107, respectively, were unaccounted for. To prevent misappropriation of assets, we recommend the Authority adopt the County of Volusia's policies and procedures as they relate to the tracking and safeguarding of assets.

2011-11 Visitor's Center Renovation Project

Approval and Competitive Bidding of Project

The Visitor's Center was renovated during the summer of 2011. The total project-related expenditures were approximately $35,000. Per the minutes of the July 6, 2011 Authority Board meeting, a preliminary budget for the project was approved in the total amount of $30,000. Based on the Authority's purchasing policies, any expenditure over $25,000 is subject to County Council approval. While the balance was split between different vendors, we noted that these items could be viewed as one project and therefore require approval of the County Council. We recommend the Authority and County of Volusia clarify whether the purchasing threshold is per vendor or per project. In addition, the Authority's purchasing policy requires at least three competitive bids for all fixed (capital) asset purchases greater than $750. Competitive bids were not obtained.

Hiring of "Independent Contractors"

We also noted as a part of audit testing, that nearly identical invoice template forms were used for several independent contractor vendors. The independent contractors were hired to perform painting and other various construction work during the renovation of the Visitor's Center, and paid at hourly rates ranging from $10.00 to $13.50 per hour. Authority personnel represented to us that the independent contractors wrote all their hours on the same piece of paper (not maintained), and the Authority printed the invoices on their behalf. The total paid to these independent contractors was $10,948. The use of these "independent contractors" is problematic for the following reasons:

No documentation could be provided of valid business licenses or insurance coverage (general liability and workers' compensation) related to these independent contractors. If they lacked insurance, the Authority was exposed to several areas of liability. In addition, the Internal Revenue Service considers it critical that organizations correctly determine whether the individuals providing services are employees or independent contractors. In determining whether the person providing service is an employee or an independent contractor, all information that provides evidence of the degree of control and independence must be considered, and documented. Classifying an employee as an independent contractor can result in the Authority being held liable for employment taxes for that worker, plus interest and penalties.

2011-12 Meal Expenses

Documentation of Meal Expenses

We noted numerous instances of meals being paid by the Authority, either via a charge to a credit card or submitted on an expense report for reimbursement. The Internal Revenue Service requires all meals and entertainment expenses be properly documented, including a detailed receipt, date, location, business purpose, and names/business relationship of the people involved. Few of the meal expenses were properly documented. We recommend all meal and entertainment expenses be properly documented as to their business purpose.

Meals Provided to Employees and Volunteers

We noted luncheons and snacks were charged to the Authority's credit card, as often as several times a week, purportedly for volunteers and employees. As providing more than an occasional meal is not considered de minimis by the Internal Revenue Service (and thus, the value of meals would be considered taxable wages to both employees and volunteers), we recommend the Authority refrain from purchasing meals and snacks for employees and volunteers. In addition, we do not believe providing regular meals and snacks to employees and volunteers is a prudent use of public funds.

Meals Charged to the Authority When Per Diems Were Paid

The Internal Revenue Service allows a daily amount for meals while traveling away from home on business, based on the city where business travel occurs. We noted the new executive director charged $647 in meals and room service to the Authority credit card while traveling, despite also having been paid a per diem.

We recommend only per diems be paid to employees while traveling away from home on business.

2011-13 Preparation of Financial Statements (Repeated from Prior Year)

The Authority's internal control system should allow the Authority to prepare financial statements, including note disclosures in accordance with generally accepted accounting principles (GAAP). The Authority's staff knowledge and expertise does not currently allow them to perform all of the functions necessary to prepare the financial statements and related disclosures. We recommend the Authority include in its set of internal controls an outside entity or staff that can record year-end prepaid expenses and accounts payable and accrued expenses. This entity or staff should have the ability and qualification to also be able to produce or review full disclosure GAAP basis financial statements. This additional control would reinforce the Authority's internal control over financial reporting and provide an ability to report financial data reliably in accordance with generally accepted accounting principles. It would also reduce the likelihood that a misstatement of the Authority's financial statements that is more than inconsequential will not be prevented or detected.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described below. In addition, we consider comments 2011-01 through 2011-05, 2011-08, 2011-10, 2011-11, and 2011-12 to include instances of noncompliance or other matters.

2011-14 Workers' Compensation Claim

We noted a workers' compensation claim was filed by the new executive director through First Financial Employee Leasing in September 2011. The claim was for an injury sustained on September 16, 2011 when the new executive director aided in the rescue efforts of a beached dolphin. This claim, however, was denied by the leasing company based on the premise that the new executive director publicly stated she was not on Authority business when the incident occurred. We also noted the Authority's records to indicate this date was a scheduled day off for the new executive director.

2011-15 Parking Tickets

We noted one of the former executive director's reimbursement requests, paid on February 6, 2011, included a $9 parking ticket. Additionally, we noted a $9 parking ticket was paid directly to the City of DeLand, subsequent to year-end, on behalf of the Board Chairman. While these tickets were issued during County Council meetings they attended in DeLand, such expenses are not allowable for reimbursement per the bylaws of the Authority.

2011-16 Robert's Rules of Order

The Authority's bylaws require all Board meetings be conducted in accordance with Robert's Rules of Order. The minutes and audio recordings of Board meetings revealed several instances where Robert's Rules of Order were not appropriately adhered to. Examples include the new executive director called the meeting to order, made motions, and voted – despite the fact that she was no longer on the Board. Discussions were held at Board meetings and decisions made as a result of those discussions, but no motions were made or seconded, and there were no formal votes by the Board.

We recommend Authority Board members receive instruction and training as to how to properly conduct meetings and fulfill their responsibilities as Board members in accordance with all State Statutes and the County Ordinance which created the Authority.

2011-17 Public Records Requirements – Access and Retention

Florida's Government-in-the-Sunshine Law requires, among other things, that all materials made or received in connection with official business be maintained and accessible to the public. We noted instances in which minutes and/or audio tapes of meetings could not be located. In addition, we noted the new Executive Director, as well as Authority Board members, communicated via email using personal email addresses versus the Authority system, which are not readily accessible to the public.

We recommend all materials made or received in connection with the business of the Authority be maintained, and all email communications be made using the Authority system.

2011-18 Contractual Agreements with Related Parties

During our audit, we noted agreements were entered into with two related parties of the former Authority Chair/new executive director when she was the Treasurer of the Authority. The new executive director's personal business was a member of these two organizations. We noted these agreements were signed on behalf of the Authority solely by the new executive director when she was the Treasurer of the Authority, and there was no approval present by the old executive director of the Authority.

Additionally, we noted the agreements were for funding "provided with the stipulation that advertising dollars are spent outside Volusia County and that invoices are provided before money is dispensed." As the only documentation on file to support these expenditures was for in-County advertising, we noted no evidence on hand supporting the fact that the monies paid to these entities – a combined total of $35,650 – were used for the aforementioned purposes.

We recommend no Board members enter into agreements on behalf of the Authority. Agreements below the threshold for Board approval for day-to-day operations of the Authority should only be entered into by the executive director, and any agreements requiring Board approval should not be approved by a single Board member, but by the Board in its entirety. We also recommend management ensure all required stipulations of contractual agreements have been met prior to releasing payment on such agreements.

2011-19 Credit Card Usage and Policies

We noted various issues related to the usage and policies surrounding the Authority's credit card. First, we noted the new executive director was issued an Authority credit card in her name while still on the Board, and $3,634 of purchases made by the new executive director prior to her resignation from the Board. Second, we noted various receipts documenting individuals other than the cardholders, such as contract laborers and volunteers, having made the actual purchases of items such as gasoline and renovation supplies. Third, we noted the Authority started paying the credit card bill via phone under the new executive director, rather than by a paper check requiring two signatures. Should the Authority continue to use credit cards, we recommend cards be issued to only the appropriate employees, and possession of the cards remain solely with those employees, as Board members and third parties should not have access to Authority credit cards. We also recommend credit card bills only be paid in accordance with the Authority's standard accounts payable policies and procedures.

We also noted a substantial number of expenditures for which no receipts documenting the expense were kept on file, as well as a variety of questionable charges including an Apple iPad, PlayStation 3 (along with an extended warranty), staff parties and dinners, and clothing. We recommend the Authority consider the appropriateness of credit card usage, and require all employees to sufficiently document the business purposes of every credit card charge prior to payment. However, as the Authority would still be liable to the credit card company for any questionable charges, we recommend the Authority consider reserving the use of credit cards for emergency purposes only, and require all employees to submit eligible expenses for reimbursement via regular expense reimbursements.

In connection with our audit, we noted and recommend the following opportunities for strengthening internal control and operating efficiency:

2011-20 Background Checks for Board Members and Key Personnel

Because Authority Board members are fiduciaries of the Authority's finances, we recommend formal background and credit checks be performed for all current Authority Board members, as well as any new Board members prior to their appointment by the County Council. We also recommend formal background and credit checks be performed for the Authority executive director and assistant executive director positions.

2011-21 Pay Increases, Semi-annual Bonuses, and Health Insurance Benefits

In the performance of our audit procedures, we noted the assistant executive director received an 8% increase in salary under the new executive director, and a part-time employee received a 45% increase in her hourly rate (18% raise under the old executive director followed by a subsequent 27% raise under the new executive director five months later) during the fiscal year ended September 30, 2011. (This is separate and apart from bonuses described in the paragraph below.)

We also noted for the past several years, full-time and part-time employees were commonly given bonuses twice yearly, based on performance as determined by the executive director. However, bonuses given to employees in July and December 2011 were significantly higher than they have historically been. For example, the assistant executive director and a part-time employee were awarded bonuses totaling $3,200 and $1,250, respectively, in June and December, which was 6% of their base salary, before bonuses, over a 12-month period.

Finally, beginning in August 2011, the assistant executive director received an additional $250 per pay period to defray the cost of her personal health insurance. (Historically, only the executive director had received health insurance benefits.)

The preceding increases in pay and benefits were all initiated at the executive director's sole discretion, although the Treasurer did initial payroll timesheets indicating his approval.

In light of the current economic environment, and the fact that the majority of County of Volusia employees did not receive pay increases during fiscal years 2010 or 2011, and received only a 3.5% increase effective October 1, 2011, we recommend a published pay scale be adopted for all employees, with pay increases mirroring those received by County of Volusia general employees. In addition, we recommend all raises, bonuses, and benefits be brought to the Board of Directors for their approval.

2011-22 Maintenance of Formal Contracts and Agreements

We noted the Authority no longer has a current, formal contract with the Port Orange South Daytona Chamber of Commerce underlying the monthly payments of $1,354. We recommend a formal agreement be established and updated from prior agreements to reflect the current payments made to the Chamber and future commitments.

The Authority did not provide responses to the findings identified in our audit.

Pursuant to Chapter 119, Florida Statutes, this management letter is a public record and its distribution is not limited. Auditing standards generally accepted in the United States of America require us to indicate that this letter is intended solely for the information and use of management and the County of Volusia, Florida**,** and is not intended to be and should not be used by anyone other than these specified parties.

James Moore & Co., P.L.

Daytona Beach, Florida
February 29, 2012